



# TRUST ME

FRAUDS, SCHEMES,  
AND SCAMS AND  
HOW TO AVOID THEM

GORDON G. LEEK

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**GORDON G. LEEK**



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*This book is dedicated to my wife Debbie and my sons Garrett and Jason,  
for their support throughout my policing career*

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Trevor was a successful small business man in the financial planning and insurance industries. Through hard work and developing his client base, Trevor established a large network of associates and clients. One of these associates was Michael Fischer. Michael approached Trevor with a business proposition that would also benefit Trevor's clients.

Michael had developed contacts in the aircraft industry where he was able to purchase blocks of seats from different airlines at considerably lower than regular book prices. These tickets could then be resold at a profit to companies for business flights or as part of a vacation package. If Trevor would be able to get some investors together they could all take advantage of this opportunity.

Michael provided Trevor with the paperwork and the books that detailed how the block-buying worked and what the profit margins would be. Convinced, Trevor contacted ten of his clients and convinced them to invest \$25,000 each. Unbeknownst to Trevor, he had unwittingly bought into a Ponzi scheme that Michael Fischer had set up. The result was Trevor and his fellow investors lost over \$250,000 to this scheme.

When Trevor told me about how he lost his money he was understandably upset. However, he was not just upset about being scammed, but he was also upset on how he was treated by the police. No one appeared to understand that he was a victim. Trevor was told by the investigators he met that this was simply a bad business deal and it was therefore not a police matter.

Trevor then came to me to ask for my opinion. Although not part of the Commercial Crime Unit at the time, at Trevor's request I completed an initial investigation and report that detailed the fraud committed. Armed with this, and evidence obtained through a private investigator that Trevor hired, Trevor went back to the police, who then pursued the case.

After twenty-five years as a police officer, and before I was assigned to the Commercial Crime Unit, I often wondered how people could get caught up in these various schemes. To me, at least, they appeared to be blatant lies with nothing to back them up. Why would someone fall for this? Are these people just greedy or simply that stupid? I knew Trevor wasn't either of these things.

As a member of the Commercial Crime Unit and serving with the Alberta Partnership Against Cross-Border Fraud investigating international mass-marketing fraud cases, I had the opportunity to interview hundreds of victims of fraud. I began to realize that there is a reason why they were targeted. Most fraud victims are trusting people that would not be able to comprehend someone deliberately deceiving them. They just happened upon an opportunity presented to them that had the potential of making themselves some money. In other cases, it was a chance to help someone, whether an acquaintance, a charity, or a family member.

I also discovered that with more complex fraud schemes, nearly all of the victims had heard about the various schemes through the newspaper, television, or movies, but none of them really understood how the ruse actually worked, or how they could be or actually were drawn into the ploy.

*Trust Me: Frauds, Schemes, and Scams and How to Avoid Them* was written to help victims and potential victims recognize and understand how a fraud scheme works. It also explains how fraudsters select their victims and induce them to participate in their scheme and turn over thousands of dollars and life savings.

It is a sad fact of life that police departments do not have the manpower or resources to investigate

most fraud cases in a timely manner, or even investigate at all if the dollar value is under a certain amount, regardless of the impact to the victim. By using case studies that illustrate these schemes, it is hoped that the reader will gain a better understanding of how a fraud scheme works, and in turn be prepared to avoid becoming a victim themselves.

As for the case involving Trevor and Michael Fischer, following a two-year investigation Fischer was sentenced to three years in jail. He has served his sentence and is currently avoiding a criminal organization that he also scammed. Trevor repaid his investors in an attempt to restore his business reputation. He was never able to recover any of the money that he and his clients gave to Fischer.

Note from the author: All references to the places and people featured in the case studies have been changed to protect the guilty and the innocent.



# ACKNOWLEDGEMENT

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This is the first project of this kind that I have undertaken. It has been an interesting learning experience for me, and one that I could not have completed without the help of friends and family, for which I am truly thankful. To Johanna and Anne of Bates Literary Agency, thank you for your guidance and patience in bringing this project together. To members of the Alberta Partnership Against Cross-Border Fraud, the Calgary Police Service Commercial Crime Unit/Fraud Detail, and those fraud investigators who know that the pen can indeed be mightier than the sword. To my friends Phil, Mark, Sharon, and Sandy, thanks for your support and comments while writing and developing this book. To my sister and brother-in-law, Jan and Bob, your insight and experience that you shared with the initial edits and drafts were great. And to my family, Debbie, Garrett, and Jason, thank you for just being there.

Gordon G. Leek

Airdrie, Alberta, 2010

[They] look upon fraud as a greater crime than theft ... for they allege that care and vigilance, with a very common understanding, may preserve a man's goods from thieves, but honesty hath no fence against superior cunning ... [W]here fraud is permitted or connived at, or hath no law to punish it, the honest dealer is always undone, and the knave gets the advantage.

Jonathan Swift, *Gulliver's Travels*

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## THE CONSTRUCTION OF A FRAUD

In October 2003, Jamie Cardinal opened an account at a bank in Fort Macleod, Alberta. Two days later, Cardinal deposited a cheque into this account at the Calgary branch of the same bank. A second and a third cheque was deposited at two other branches of the bank into the same account. Two days after making his last deposit, Cardinal attempted to make a number of cash withdrawals from his account but was unable to do so. He tried again the next day but was again frustrated.

By the end of the week, Cardinal was calling the bank manager, asking why he could not access his funds and when they would be available. The manager explained that, because the cheques were from out of province, it would take a few days before the funds would be released. Cardinal told the manager that he would call him back in a few days. The manager never heard from Cardinal again. When the cheques were examined at the bank, it was discovered that they were all drawn on a company account that had its headquarters in Oshawa, Ontario. However, a closer examination of the cheques revealed more. The cheques that Cardinal deposited were “bleached” cheques and Cardinal's name had been inserted in place of the original name. In addition to this, the amounts of the cheques had been altered.

Surveillance photographs of Cardinal making these deposits at the bank, and fingerprint examination of the cheques, all linked Cardinal to this offence. He was subsequently charged with fraud under \$5,000, under Section 380(b) of the Criminal Code of Canada.

Paula was an employee of the Real Canadian Superstore in Calgary, Alberta. She would use the stand-alone bank machine, located in the foyer of the store, to withdraw cash after work. After Christmas, Paula noticed there were several cash withdrawals that she did not make. She contacted the police and claimed that someone had stolen her debit card and had taken money from her account. She did not know how this could have happened to her. In Paula's opinion, if her bank card had been stolen and used, the bank should reimburse her for the stolen money.

In the course of their investigation, the police interviewed Paula and other employees at the Superstore. The police learned that Paula had a habit of using the bank machine without taking any precautions about hiding her Personal Identification Number (PIN) from other employees. Paula was also in the habit of leaving her card on a desk in the employee common room. This provided anyone who worked for the Superstore free access to Paula's card without her knowledge.

Paula told the police that she was under the impression that the bank machine, and all bank machines, contained video surveillance cameras and the police could easily catch the culprit. The police explained to Paula that few ATMs have cameras. Without sufficient evidence to proceed with their investigation, the police informed Paula that there was nothing they could do for her. Paula resigned herself to the fact that her money was gone and that the bank would not compensate her for the loss.

## **WHAT IS FRAUD ANYWAY?**

The crime of fraud is defined under the Criminal Code of Canada Section 380. The section reads 380(1) ~~Everyone who, by deceit, falsehood or other fraudulent means, whether or not it is a false pretence within the meaning of this Act, defrauds the public or any person, whether ascertained or not of any property, money, or valuable security or any service,~~

(a) is guilty of an indictable offence and liable to a term of imprisonment not exceeding ten years, where the subject-matter of the offence is a testamentary instrument or the value of the subject matter of the offence exceeds five thousand dollars; or

(b) is guilty

(i) of an indictable offence and is liable to imprisonment for a term not exceeding two years or

(ii) of an offence punishable on summary conviction,

Where the value of the subject-matter of the offence does not exceed five thousand dollars.<sup>1</sup>

But what does this mean to the average person? We have all had an experience that, to our mind was definitely some sort of fraud. How does the above definition differ from what we know to be fraud?

Fraud is an act of theft committed under special circumstances. Those circumstances are generally considered to be:

1. the person/victim was willing to part with the money, item, or service;
2. the fraudster used some form of deceit or trickery to obtain the money, item, or service; and
3. the person suffered some form of loss as a result of the trickery.

Fraud can be defined in more simple terms as “deprivation through deception,” where the deprivation is the loss of the money, item, or service, and the deception is the trickery.

The problem with investigating and determining claims of a fraudulent act is that they frequently tend to straddle the borderline between a civil matter and a criminal act. To complicate this further, victims are often confused about what they consider a moral obligation and a criminal act. Because of this confusion, it may be worthwhile taking a moment to differentiate between a criminal matter and a civil matter.

Civil matters involve some form of agreement between at least two parties, such as the writing of a cheque. A cheque can be described as a contract whereby one person is saying, “I have sufficient money to purchase your item,” and the other person states that he is willing to sell that item for the agreed amount.

If the cheque cannot be negotiated, or “bounces” for some reason, such as non-sufficient funds (NSF) in the account, the person who wrote the cheque has technically committed a crime. However, if it was a simple matter of poor bookkeeping that caused an overdraft to the person’s account, a fraud was not necessarily committed. In legal terms, there was no *mens rea*, meaning guilty mind, or *intent* to commit fraud upon the person who obtained the cheque. If, however, there was no money in the account, or there had never been sufficient money in the account, and the person writing the cheque knew there was no money or insufficient funds in the account, then that person has knowingly committed fraud. In this case, the person deliberately deceived the other party by implying that he had

sufficient means to cover the amount of the cheque.

Moral obligations are more difficult to define because we each have our own views and beliefs on what we consider moral behaviour. Imagine you've contracted someone to repair your roof. You agree on a price and the money is paid for the repair. However, you do not establish with the contractor what quality of materials will be used, the standard to which the job will be done, or whether the job is guaranteed. You expect that the person you contracted to do the job will do the best job possible, just like you would.

After two months, and after the first rain, the roof leaks. When you call the contractor, he tells you he did the best he could. He can account for all of the money spent and the time he took doing the job. You demand that he fix the leak, but he tells you that he is too busy and the job is only guaranteed for thirty days, whether or not it rains in that time period.

Has the contractor committed a fraud or criminal act? No, he has not. All of the material and time has been accounted for and spent on the repair. Morally, should he repair the leak? Most of us would say so. Legally, can the contractor be forced to repair the leak? The civil courts would have to decide.

Often issues of fraud become confused because of the terminology used by the parties involved. Fraud victims will claim that they loaned the fraudster the money and now he won't pay it back, that the money was to help the fraudster out by paying his rent but instead he bought alcohol or drugs with the money. These types of circumstances generally fall into the realm of civil matters. The victim has issued credit to the individual, and now must seek a civil remedy, such as small claims court, cashiering, or taking part of their wages to regain their money.

The Criminal Code of Canada section on fraud also refers to a "false pretence." A false pretence is a statement by the fraudster of a fact that is known by the person to be false or untrue. The purpose of the false statement is to cause the victim to act upon the information as if it were true. The false statement goes beyond simple exaggeration. The "statement" can be made by words, either verbally or in writing, or by deeds or actions, such as presenting a counterfeit document. We will look at some cases where the fraudster makes these statements and causes the victim to act upon these statements.

## **THE PSYCHOLOGY OF FRAUDSTERS AND VICTIMS**

Too often fraud victims are dismissed as greedy, naïve, or just plain stupid and deserving of what they got. In some instances, this may be very true, but it is not necessarily the case for the majority of fraud victims.

Traditionally, we view ourselves as rational, logical individuals. We analyze the situation, weigh the risks against the potential benefits, and make our choices. Social psychologists, such as Carol Tavris and Elliot Aronson, believe that all of us have certain prejudices and biases programmed or "hard-wired" into our subconscious that justify our beliefs and perceptions and, at times, override our logic and judgment. In their book, *Mistakes Were Made (But Not By Me)*, Carol Tavris and Elliot Aronson state that the brain has "blind spots" that cause us to rely upon introspection to tell us how we think and feel about ourselves and our decisions. These blind spots then allow us to justify the decisions we make based upon those beliefs.<sup>2</sup>

One of these biases is how each of us perceives ourselves in comparison to others. Generally, human beings have an inflated opinion of themselves. We believe that we are smarter, better looking, and more desirable than the people around us. How often have you looked at a couple and thought

“What does she see in him?” or “I have more to offer than she does.” How often at work have you thought, “Without me this place would just fall apart?”

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This kind of bias is a necessary part of our psychological makeup. It provides us with the confidence in our own being to try new things, to stand on our own two feet, to survive, to walk tall and to make a difference in the world. It can also lead to overconfidence in our abilities and cause us to make incorrect decisions.

We also have the predisposition to believe what we hear, regardless of the circumstances in which we heard it. Urban legends are often considered true, even when they have been disproved. One such example of an urban legend is that of a celebrity rewarding a passing motorist for changing a flat tire or repairing their broken-down limousine. The story usually says that a motorist notices a limo stopped on the side of the road, often at night, with some form of mechanical trouble. The passing motorist stops and changes the tire or fixes a broken fan belt without realizing who the unfortunate celebrity is. Afterwards, the Good Samaritan learns that the stranded limo belonged to Bill Gates or Donald Trump, or some other rich celebrity, and the motorist was rewarded for his good deed by having his mortgage paid off.

On the surface, this story sounds like it could happen. However, when the circumstances are examined, the story falls apart. Stopping to help someone could certainly result in a reward, but paying off someone’s mortgage may be a little extravagant. One might also ask why the limo driver didn’t change the tire or why the celebrity didn’t call for roadside assistance.

This windfall myth speaks directly to our belief that no good deed should go unrewarded. It also emphasizes the belief that sometimes you just have to be in the right place at the right time.

Phrases that begin with the preface such as “They say...,” “I heard once...,” or “I read somewhere...” tend to take on a life of their own. These sayings become part of our daily speech and become established in our minds, sometimes overriding our logic and better judgment. How many of us have heard somewhere or used the axioms, “They say we all have a twin somewhere,” or “I read somewhere that no two snowflakes are identical.” Although none of us can say when or where we first heard the “undisputed” fact, it appears to make sense: therefore, we know that it’s true.

Another adage, “A little bit of knowledge can be a dangerous thing,” also holds true with regard to fraudulent situations.<sup>3</sup> When a person hears of various fraud schemes on the news, it gives them a false sense of bravado that again may overcome their judgment. They believe that by simply hearing of a scheme and by being alerted to the possibility that these fraudsters are out there, they now have the necessary knowledge to avoid becoming a victim.

Short news clips and exposés can only provide a sketch of a scheme and the victims it impacts. However, the viewer believes they have gained more information than they really have. Even subconsciously believing that, “I have seen this on television. You can’t fool me, I know all of your tricks,” victims set themselves up for failure.

Other victims believe that they don’t need to pay for expertise; for example, in buying and selling stocks, they think they can do it just as well as anyone. Too many people believe that they have more knowledge and experience than they really have. It is these inherent traits that fraudsters use against us to carry out their schemes.

## **GENERAL TRAITS OF FRAUDSTERS**

When we compare fraudsters, or white-collar criminals, to others who commit property crimes such as theft, robbery, and break and enters, there are several traits that separate them from their criminal colleagues. Although not always present, the following traits are often common to all frauds, whether the fraud is committed in a business setting or targets a mass market:

Fraudsters are often considerably older than regular property offenders, tending toward middle age. In business, they have reached a position within a company that allows them to carry out their fraud. When committing frauds on their own or as part of a group or team, they have often developed skills that will assist them in carrying out their deceptions.

Unlike property offenders, most fraudsters are not interested in the adrenalin rush or thrill of the chase by the police and law enforcement, especially when it involves physical effort. They are content to take a less strenuous or less physical approach to crime.

A higher proportion of fraudsters are female, for several reasons. Traditionally women have occupied the positions within a company that see them dealing with such matters as accounts payable, accounts receivable, and other clerical roles. This provides them with more opportunity to commit fraud by virtue of their access to accounts, records, and cheques. Additionally, women are in a higher proportion of positions in the retail and service industries such as restaurants and lounges, where opportunities to access credit card information are higher. These occupational roles and types of fraud account for the higher proportion of female fraudsters.

In conjunction with being older than property offenders, most fraudsters have more education than other criminals. They have at least some college education, which allowed them to obtain employment with the company in the first place.

These fraudsters also have higher intelligence quotients than other criminals, which allows them to think in the abstract and to develop schemes. They know how to operate technology with a confidence that fools others into believing that their motives are legitimate. "Spoofed" websites and the use of publishing programs to create apparent legitimate documents are just two examples of a fraudster's ability.

White-collar criminals tend to come from happier families than their criminal counterparts do. They are not generally victims of child abuse and do not come from poor neighbourhoods. This socio-economic condition also carries through to their present circumstance, where the fraudster is often married, has a home and children, and is apparently successful both financially and socially.

From an investigative point of view, fraudsters' criminal records are generally shorter than those of other criminals. Their records will often start only a few months or years prior to being exposed in their latest venture.

In addition to having a shorter criminal record, their records will often show that several charges would have been withdrawn or minimum sentences such as probation, restitution, or conditional discharges were imposed. These minimum sentences often allow the criminal to work under the radar of law enforcement and stalk their victims.

The portrait of a fraudster, then, is that of a successful individual with high self-esteem and motivation. He or she is often kind, generous, and sociable, and comes across socially as an achiever.

and a doer, with a strong sense of family harmony. The fraudster also exhibits characteristics of self-sufficiency, self-control, and optimism that make him or her likeable and someone that others want to be associated with.

Although this portrait paints an individual that otherwise can be admired, the fraudster is still a criminal and a parasite, preying on the generosity and honesty of others. Their main *raison d'être* is to take from others in order to benefit only themselves.



### **IT'S ONLY \$30,000 ... THE COMPANY WON'T MISS IT**

In January 1996, Debbie was employed by a large engineering company whose main clientele was the oil patch industry. Debbie held the position of accounts payable clerk for the company and had done so for thirteen years. During the period of her employment, Debbie had access to company cheques in order to pay invoices submitted by suppliers to the company.

One day in February, Debbie forged a company cheque, payable to a contracted transportation company, by printing an unauthorized cheque and forging her manager's signature. This cheque was deposited into Debbie's bank account through an ATM in addition to her regular paycheque. In March, Debbie forged a second company cheque, for the same transportation contractor, and again deposited the cheque into her account. In April, she forged a third cheque, and in June she forged two more. This pattern continued for at least nine months. The total amount of the known deposits totalled over \$32,000.

In February of the following year, the chief financial officer of the company discovered discrepancies during an audit of the company's books and informed the police. The chief financial officer also stated that all but one of the cheques had forged signatures.

As a condition of her employment, Debbie had provided the company with a void cheque to her personal account to allow the direct deposit of her salary. This allowed the police to obtain a search warrant on her bank account and view her transactions. The account history showed that the cheques had been deposited through an ATM near where Debbie lived. Additionally, several other questionable deposits were noted during a review of Debbie's bank statement. Her fraudulent activities were not overly sophisticated, so upon closer examination of her records the cheques were readily traced to her. However, there was still an element of planning necessary in order for Debbie to carry out her theft from the company.

When the police confronted her, Debbie attempted suicide with an overdose of pills. When she recovered and was interviewed, Debbie claimed that her husband had no knowledge of the fraudulent cheques, even though he benefited from the additional \$32,000 income. Debbie pled guilty to the fraud. Her lawyer explained to the court that she showed remorse for her actions by virtue of her suicide attempt. The court agreed with the lawyer and Debbie was sentenced to one year probation. The company had to sue Debbie separately in civil court to recoup the money that Debbie had defrauded.

### **THE CORPORATE ENVIRONMENT**

When dealing with business fraud, there are only two areas that must be looked at in order to determine whether the company is at risk: the employees and the management of the company itself. For a company to reduce the risk of fraud, nothing is more important than promoting an ethical

environment in which the employees function.

Ethics cannot be determined by laws and rules. The laws establish a minimum standard behaviour expected by society as a whole, whereas ethics are principles that we can and should aspire to and demonstrate daily. In the business environment, ethical behaviour starts at the top and sets the example for everyone to follow.

It comes down to the simple choice between what is right and what is wrong. Are the owners, managers, and supervisors willing to lead by example and to not only “talk the talk” but “walk the walk?” If the organization is committed to a policy of integrity, fair practice, and respect, the managers, as the gatekeepers of the organization, must also practice this policy. As a manager that sets the tone of the working environment, do your employees know what is expected of them? Do your employees understand what the position of the company is regarding ethics and respect in the workplace?

It is no longer sufficient to expect someone “to know better.” Not everyone has been exposed to the same environmental experiences that shape our being. Expected conduct that has been defined mandatory for an individual to become part of the solution.

## → DEVELOPING A CORPORATE ENVIRONMENT

Organizations should have a written code of conduct which tells everyone in the organization what is expected of them. It sets a standard that is realistic and achievable. Organizations also need to spend time on educating everyone in the company what the code of conduct is and why it is so important to follow. This education should be done as part of an initial orientation and reviewed at an annual appraisal or evaluation.

When looking at the mechanics of an organization, there are a number of questions to ask to lessen the likelihood of internal business fraud.

- Is there a segregation of duties in the organization?
- Does one person control the purchasing, receivables, and payables for the organization?
- Does one person have access to organization assets and accounting records in order to cover up any dishonest activity? accounting records in order to cover up any dishonest activity?
- If there are no distinct personnel or department to handle all aspects of the business, are there internal controls that would prevent one person from dishonest acts? For example: Do receiving slips have to be initialed by the person receiving them? Do the cheques have to be signed, or is there a stamp or signature machine?
- Are internal controls established and adhered to at all times? If signatures are not obtained, are there other forms that must be signed?
- If there is no purchase order do you allow items to be received or is the order checked and a replacement purchase order prepared? is the order checked and a replacement purchase order prepared?
- If there are internal controls, are there ways for someone to override those controls? If so, can they be changed? If there are no internal controls can potential hazards be identified? Is there someone who can monitor these hazards regularly?

In Debbie's case, the workplace atmosphere enabled her to take advantage of the business and commit her frauds. Debbie had control of, and was entrusted with, the accounts payable. This allowed her to authorize and issue cheques to companies and suppliers. It was these bogus cheques that found their way into her account.

## **TAKE THIS CHEQUE AND CALL ME IN THE MORNING**

Cindy was the manager for a doctor's office in Swift Current, Saskatchewan. She had been employed there for over four years and ran the office efficiently. Cindy ensured that billing for patients was sent out on time and that all bill payments were posted and deposited.

To help run the office, Cindy purchased an accounting program that allowed her to track all of the patients according to the doctor they visited, whether the payments were from an insurance claim, health plan, and so on.

After four years, the partners decided that they wanted to grow with the community and looked for investors and partners. Wanda was just what the doctors ordered. Wanda ran a chain of successful physiotherapy clinics throughout the province and felt that the addition of this office would complement her other business. Although not a medical practitioner herself, Wanda graduated with Masters in economics and business and knew what made a successful business.

Prior to taking over the business, Wanda reviewed the books and could see that the potential for the clinic to grow was excellent. With the number of patients and the proximity to a new sports complex, Wanda and the partners had every expectation that the bottom line would be profitable to everyone.

After six months, the expected profits did not reach their anticipated levels. In fact, the clinic was losing money! This was the opposite of Wanda's experiences with her other clinics, and contradicted what the numbers should be saying. Wanda arranged for an independent audit to review the books. The audit noted some discrepancies between entries and deposits. When questioned about the discrepancies, Cindy announced her resignation and walked out the door.

Unknown to Wanda and the other partners, when Cindy walked out of the clinic, she went directly to the Health Review Board. She filed a claim stating that the clinic was double-billing patients and health insurance claims. As a result, the Health Review Board entered the clinic offices and seized a copy of the computer records, shutting down the business for several days. This was a classic example of Cindy's part of "the best defense is a strong offence" in an effort to deflect the investigation away from her.

The Health Board's three-month review showed that there were instances of double billing, but they were unable to determine who made the billings, whether they were deliberate, or whether they were simple accounting errors. As a result, the clinic was allowed to continue its operation but was liable to pay back the Health Board for duplicate billings.

So why was the business losing money? When Cindy first set up the accounting system and took over her management duties, she also set up a second bank account at a different bank. Cindy opened this account in her name, operating as the clinic. She did this in order to deposit cheques made out to the clinic into her own account. She also obtained a company bank card that allowed her to make cash withdrawals at the casinos she frequented without anyone suspecting her personal account.

Cindy's employers did not know that she had a gambling problem. In fact, she had been convicted

five years earlier for stealing money from her previous employer in order to feed her gambling habit. In the four years that Cindy operated as the clinic's manager, she managed to skim over \$400,000 into her duplicate account. All of this money went toward her gambling addiction.

In addition to the monetary loss to the company, this fraud caused irreparable damage to the reputation of the clinic and the doctors, as well as damaging family relations from the extreme pressures placed upon the partners. One doctor felt that he could no longer practice in Swift Current and moved his business to another community.

## **CORPORATE STRUCTURE TO PREVENT AND REDUCE FRAUD**

In the case of Cindy and the doctor's office, there was no segregation of responsibilities. Cindy was responsible for the collection, recording, billing, and deposits of all money coming into the clinic. It was Cindy who bought and used the accounting program that allowed her to hide the transactions, and it was Cindy who made the actual deposits for the clinic. transactions, and it was Cindy who made the actual deposits for the clinic.

Understandably, small businesses have to cut costs where they can, and sometimes margins are too tight to hire another person. This is when the owner has to decide whether to be more "hands-on," hire another person, or take his or her chances.

One of the simplest, yet most overlooked methods of fraud prevention is getting to know the people in the organization. In a small business, knowing your employees is vital. In larger corporations and institutions, it is incumbent on the managers and supervisors to display leadership by meeting regularly with subordinates and allowing them to participate in the organization through feedback and openly sharing their ideas. Those people who feel that they are part of something are less likely to sabotage it and will strive to make it succeed. It used to be referred to as MBWA — Management by Walking Around.

Most business fraudsters share common characteristics that can and should be recognizable to managers and human resources personnel. These traits can be divided into two areas: outward traits and hidden traits.

## **OUTWARD TRAITS OF FRAUDSTERS**

Television police parlance refers to these traits as the Means, Motive, and Opportunity (MMO) for a fraudster to successfully operate within an organization. Outward traits consist of the following but are not necessarily limited to these. Fraudsters may present with all or only a few.

1. **Long-term employee:** This is the employee who has been with the company for many years. It used to be that when someone was hired he or she could look forward to a career that spanned twenty to thirty years. Nowadays, people change jobs and positions every five to ten years, so the concept of the long-term employee is relative. This is not saying that the long-term employee will always be looking to defraud his or her company. Fortunately, this is not the case. However, often when that same employee feels that he or she is not appreciated, or that

he or she has been passed over for promotion or advancement by younger or newer members, resentment can build.

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A manager must be cognizant of this and be proactive in his or her relationships with the long-term employee. They are often the ones who made the company what it is today, no matter how minor the contribution.

2. Position of trust: Generally, the internal fraudster holds a position of trust within the organization. The person is responsible for purchasing, payables, contract negotiation, etcetera. This position of trust allows them to take advantage of the environment to their own benefit.

Placing an extra order and keeping the balance for themselves, or writing additional cheques to themselves is not uncommon or difficult to do. This is what internal controls are meant to prevent.

3. Works overtime or never takes vacations: We have all worked overtime to complete a project or meet a deadline. When starting or expanding our business, we don't take any time off for vacation or take the time to look after ourselves as much as we look after the business.

Sometimes deadlines overtake us, or jobs require more effort than originally thought. This is only natural in the real business world. Valued employees who believe that they are part of the organization will more than likely put in the extra effort; either for extra pay or extra time off or because they take pride in their work. However, not every job requires "Bob" from accounting to put in one or two hours every day after everyone else has left the building. If Bob does, Bob does not know his job as well as he should. A manager should ask himself whether Bob should be retrained, if any personal reasons are affecting his work, or if he's managing his own fraudulent schemes, and then act on his conclusion.

A fraudster will work so much overtime because it allows him the opportunity, within their position of trust, to work on their scheme without interruption or detection. Photocopying of records, and shredding of purchase orders and shipping receipts can be done much more easily when no one is around to monitor.

Fraudsters never take a vacation because someone else may come in to cover their position while they are away, thus running the risk of having their schemes exposed. Lapping schemes and deposit skimming are two schemes that, once the fraudster is away, the systems are out of his or her control and subject to detection or collapsing. Lapping is when the fraudster continually transfers money from different bank accounts, keeping ahead of the electronic transfers and hence overlapping the funds. Deposit skimming is where the fraudster steals money and falsifies bank deposits to cover the theft. Both of these schemes will be discussed in more detail further on.

In the next case, we will see how the fraudster exhibited these outward traits and how they were eventually discovered following a company audit, and a great deal of lost money to the company.

## **LICENCE TO PRINT MONEY**

Rupert owned a successful advertising company in Kingston, Ontario, called Hi-Def Printing. Hi-Def Printing specialized in print advertising — flyers, posters, and mailings. The company had several contracts throughout the city and area, including a couple in Ottawa and Montreal. After three years,

was time to take the next step and expand the operation.

After a substantial recruiting campaign, Larry Russell arrived as a suitable candidate to lead Hi-Def Printing into a bright future. Russell brought a wealth of experience to the position. He had been advertising for over twenty years and owned his own smaller advertising company. Russell was able to take over the reins immediately. The shareholders met and agreed to hire Russell as the company's CEO.

Under Russell's leadership, Hi-Def Printing took off. There were more contracts signed and even walk-up business improved. Russell would constantly meet new clients and take them out for lunch, paying in cash from the large roll of twenties that he always carried.

It seemed everything was moving in the direction the investors had hoped for. Then the company received a notice of non-payment to one of their suppliers amounting to several thousand dollars. This prompted a cursory review of Hi-Def Printing's finances. Although the company was busier than ever before, it was actually losing money.

The shareholders met and agreed to suspend Russell while an independent audit was conducted. The audit discovered that in the thirty-six months that Russell had been in charge of the operations of Hi-Def Printing, the company had an accounts receivable of \$2.3 million and an accounts payable of \$2 million. Russell was fired and a forensic audit was conducted on the company's books. The audit revealed that Russell had used the company's income to supplement his own business and personal lifestyle.

Russell's base salary as CEO was agreed upon as \$85,000, plus expenses. In the first year, Russell paid himself a bonus of \$150,000 over and above his salary. In addition, Russell's expense account actually equalled his base salary.

Russell had used Hi-Def Printing to sub-contract the contracts to his own smaller company, and then billed Hi-Def Printing for the amount, which was often for more than what was agreed upon. He also constantly purchased supplies and equipment for his company through Hi-Def Printing, and had them delivered to his company, sometimes "forgetting" to send the inventory to Hi-Def Printing.

The audit also showed discrepancies with the cash deposits. When a client paid in cash, the paper bills were initially deposited into a safe in Russell's office. The coins, on the other hand, were put into a large "Texas-Mickey" bottle that Russell kept beside his desk. This bottle served as the petty cash for the company.

Russell would make the cash deposits at the bank a few times a week; however, the cash billing rarely balanced with the deposits. In addition, these deposits were always for even-numbered amounts: \$350.00, \$425.00, \$500.00, and so on. An audit of the receipts showed that the amounts should have been more likely \$387.53, \$442.37, and \$573.86. In other words, Russell was skimming deposits from Hi-Def Printing. On average, \$1,500 was skimmed from the cash deposits every month. The cash deposits only matched the bills and receipts during the times that Russell was away on holidays and the assistant manager took over the bank deposits.

The audit also uncovered double billings on Russell's expense account for lunches, several with the shareholders of the company, and a more luxurious car than what had been agreed to by the company. There were external expenses that the audit was not able to confirm or track back to the company's expenses.

Russell had recently purchased a new house in an acreage cul-de-sac, complete with swimming pool, game room, home theatre system, and a three car garage where he parked his luxury car. He also

held an annual block party for his neighbours with free food and liquor, and also sponsored an annual golf tournament for friends and clients — all expensed to the company.

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## HIDDEN TRAITS COMMON TO FRAUDSTERS

Hidden traits are just what they sound like. They are events and happenings in the fraudster's life that fellow employees or managers may not be aware of. When colleagues learn that an individual defrauded the company, invariably everyone says, "I should have known something was wrong," "She had changed after her divorce," or "I always wondered how he was able to afford that house" and so on.

The following traits are often indicators or triggers for fraudulent activity. These traits do not always indicate fraudulent activity, but if there is a problem, they may be a starting place to look.

1. **Living beyond one's means:** Does the person live in a house or condo that is unrealistic or inappropriate in relation to their salary? Do they drive an expensive import or luxury vehicle or take extravagant and exotic holidays? Russell lived in a large house and held extravagant parties for friends and neighbours.
2. **Change in personal circumstances:** Has the person recently been divorced or lost someone close to them? Often a drastic change like this will cause that person to take a chance or take risks just to "feel alive."
3. **Emotional instability:** As with a change in personal circumstances, being diagnosed with a disease or depression will also cause a person to do something that otherwise would be totally out of character or unexpected.
4. **Drug or alcohol problem:** Does the person show up at work hung-over or late? Drug and alcohol problems and the effects on family and work have been substantially documented. They will not be covered in this book, but they may be an indicator of fraudulent activities in conjunction with other signs.
5. **Gambling:** Gambling is recognized as a mental illness that needs treatment. When interviewing fraudsters who had gambling as the root cause of their frauds, they claimed that it was like being in a different state of mind. They did not know what they were doing or how much money was being lost. Gambling became an addiction that they could not control. Any conscious thought about the amount of money being lost, or where the money came from, became irrelevant.
6. **Dissatisfaction:** Has the person been constantly passed over for promotion or recognition? Have they received credit where credit was due? Was their performance that which is expected of a good or long-time employee?

These traits are not legal defences for committing fraud, although these issues may be raised by the defence attorney in court. However, some of these traits may be how the fraudster justifies the actions to themselves and to allow the fraudster to act "out of character." Getting to know one's employees is the single most effective way for an owner or manager to prevent fraud and other incidents, either criminal or socially inappropriate, in the workplace.

In the case involving Hi-Def Printing and Larry Russell, Hi-Def Printing lost over \$850,000 as

result of Russell's activities. Russell was charged with theft for the deposit skimming, and fraud for the double billings on his expense account and purchases of supplies made for his own company and billed to Hi-Def Printing. The amount of money attributed to the criminal theft and fraud charges was approximately \$80,000.

The other expenses that Russell racked up — his bonus and new car, etcetera — did not lead to Criminal Code charges due to the vagaries of Russell's contract with Hi-Def Printing. The recovery of these expenses had to be determined in a long and separate civil court action.



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